

Message Text

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17

ACTION EB-07

INFO OCT-01 EA-06 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 IO-10 H-02 OES-03 FEA-01 INT-05 /098 W

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P R 260745Z JUN 75

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 918

INFO AMCONSUL HONG KONG

C O N F I D E N T I A L SEOUL 4595

PASS AID/EA/EAA FOR ADLER

HONG KONG FOR REGFINATT

E.O. 11652: GDS

TAGS: EFIN, IMF, KS

SUBJECT: IMF REPORTEDLY SETS NEW CONDITIONS FOR OIL FACILITY USE

REF: (A) SEOUL 2548; (B) SEOUL 4294

1. IMF RES REP AND KOREAN OFFICIALS REPORT THAT ON JUNE 20 IMF BOARD APPROVED KOREAN FIRST TRANCHE OIL FACILITY DRAWING OF SDR 58.4 MILLION BUT SET THREE CONDITIONS FOR NEXT DRAWING WHICH WE UNDERSTAND TO BE: (1) ELIMINATION OF DIRECT IMPORT RESTRICTIONS IMPOSED LAST APRIL PER REF A; (2) END TO EXPANSIONARY CREDIT POLICY AND (3) INCREASE IN INTEREST RATES. TWO DIRECTORS REPORTEDLY VOTED AGAINST DRAWING BUT THEIR IDENTITY NOT YET KNOWN HERE.

2. IMF REP BELIEVES BOARD TOOK ACTION PRIMARILY AS RESULT KOREAN REFUSAL TO PLEDGE REMOVAL BY END OF YEAR OF APRIL IMPORT RESTRICTIONS ON 39 ITEMS RESULTING IN \$67 MILLION REDUCTION. SINCE KOREANS HAD BEEN EXPECTING NEXT TRANCHE
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DRAWING IN SEPTEMBER OR OCTOBER, BOARD CONDITIONS REPRESENT

STIFFENING OF ORIGINAL POSITION. THEY ARE ALSO IN LINE WITH RECENT IMF STAFF REFUSAL TO APPROVE NEW RESTRICTIONS ON 9 CATEGORIES INVOLVING ONLY \$2.4 MILLION REDUCTION IN SECOND HALF OF YEAR. INITIAL KOREAN REACTION TO BOARD ACTION IS ONE OF DISMAY.

3. IMF REP AND KOREANS ARE NOT YET CLEAR AS TO PRECISE REQUIREMENTS SECOND AND THIRD CONDITIONS BUT FORESEE LITTLE TROUBLE IN DEMONSTRATING MARKED SLOWDOWN IN DOMESTIC CREDIT SINCE FIRST OF YEAR (SEE REF B). KOREANS DO NOT WISH TO RAISE NOMINAL BANK LENDING RATES (WHICH ARE LOWER THAN CURRENT EFFECTIVE RATES) BUT HAVE BEEN CONSIDERING FURTHER INCREASE IN TIME DEPOSIT RATES, WHICH MIGHT SATISFY THIRD CONDITION. IMF MID-YEAR REVIEW MISSION SHCHEDULED TO ARRIVE IN LATE JULY EXPECTED DISCUSS THESE MATTERS.

4. IMF REP EXPECTS ONE RESULT TO BE STRONGER IMF STATEMENT ON THESE ISSUES AT CG MEETING.

5. WOULD APPRECIATE REPORT ON IMF BOARD ACTION, INCLUDING U.S. POSITION.

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